SPACE AND NAVAL WARFARE SYSTEMS COMMAND
CIVILIAN PERSONNEL SYSTEM

INTRODUCTION

Title VII of the Civil Service Reform Act (CSRA) of 1978 authorized the U. S. Office of Personnel Management (OPM) to permit federal agencies to conduct demonstration projects to determine if changes in personnel management policies or procedures would result in improved federal personnel management. By law, such experiments were limited to a total of 10 active projects, could last for a maximum of five years, and were limited to a maximum of 5,000 employees each.

The first project approved and implemented was the Navy's joint Demonstration Project, developed initially at the Naval Ocean Systems Center San Diego and the Naval Weapons Center (NWC) China Lake and now implemented at the Space and Naval Warfare Systems Command (SPAWAR) and its subordinate Centers in San Diego, Charleston and Chesapeake and the Naval Air Warfare Center Weapons Division at Point Mugu and China Lake. The project was initiated in July 1980. It is a revised personnel management system that provides for simplified position classification and performance appraisal, performance-linked pay, and performance-based retention.

Subsequently, the 1995 Defense Appropriations Act, PL 103-337, waived the termination date and made the personnel system permanent.

The following background information provides a brief description of the Project as implemented at SPAWAR. Its purpose, description and operational policies are covered.

BACKGROUND

The traditional civil service general schedule system as it existed before the beginning of the project presented a number of problems. Key examples are:

- Classification: The system required lengthy, narrative, individual position descriptions which had to be classified by the use of complex and often outdated position classification standards. The system caused delays in recruiting, reassigning, and promoting employees. Line managers had only limited flexibility to administer personnel resources; often personnel staffs were in an adversarial role with line management.

- Performance appraisal: There were insufficient means to reward good and penalize poor performance, and a lack of a system to establish performance expectations for an employee prospectively, assess achievements, and grant or withhold financial rewards. Rewarding or penalizing performance required inordinate paperwork, often discouraging managers from taking warranted action.

- Pay: Few incentives and little flexibility existed in dealing with all levels of the work force. Pay was not always commensurate with performance. Inflexibility in pay setting limited management's success in retaining the most valuable employees.

- Reduction-in-Force: There was an inability to recognize performance as a major criterion in RIF situations which sometimes resulted in adverse effects upon good performers.

The Navy Demonstration Project was established to address these problem areas within the existing personnel system and to prove federal organizations could be more effective when there is greater line management control over personnel functions.

PURPOSE

The goal of the Project was to simplify and increase line management involvement in major personnel management areas, such as classification, compensation, and performance appraisal. The line manager is the primary decision-maker on personnel issues of pay, classification, and job assignments; these decisions have important effects upon motivation, performance, and organizational effectiveness. To accomplish these changes, the Demo Project includes the following:

- A more flexible, manageable, and understandable classification system that aggregates several GS grade levels into broad pay bands

- A simplified performance appraisal system that links compensation to performance

- An expanded application of the CSRA merit pay concept for both supervisory and non-supervisory employees at all grade levels

- An emphasis on performance as a primary criterion for retention in reduction in force, while retaining tenure, veterans preference, and length of service factors.

TYPES AND NUMBERS OF PARTICIPATING EMPLOYEES

In keeping with the 5,000-employee limit in the project, the two centers initially included the following full-time personnel in the Project:

	NOSC	NWC
Scientists, Engineers, and Senior Professional Staff	1,284	1,444
Technicians	332	568
Administrative Specialists	223	395
Technical Specialists	171	183
Clerical	360	--
Total	4,980	

Scientists, engineers, and all other GS-13-15 personnel entered the Project when it began in July 1980. The GS-12 Administrative and Technical Specialists entered the Project in January 1981; the Technicians followed in August 1981. The GS-11 and below Administrative and Technical Specialists were included in August 1982. Since the clerical population of both Centers could not be added to the Project without exceeding the 5,000 person limitation, only NOSC (now SPAWAR) clerical personnel were included in August 1982, in order to ensure an opportunity to fully evaluate the Project's concepts for all of the above career paths.

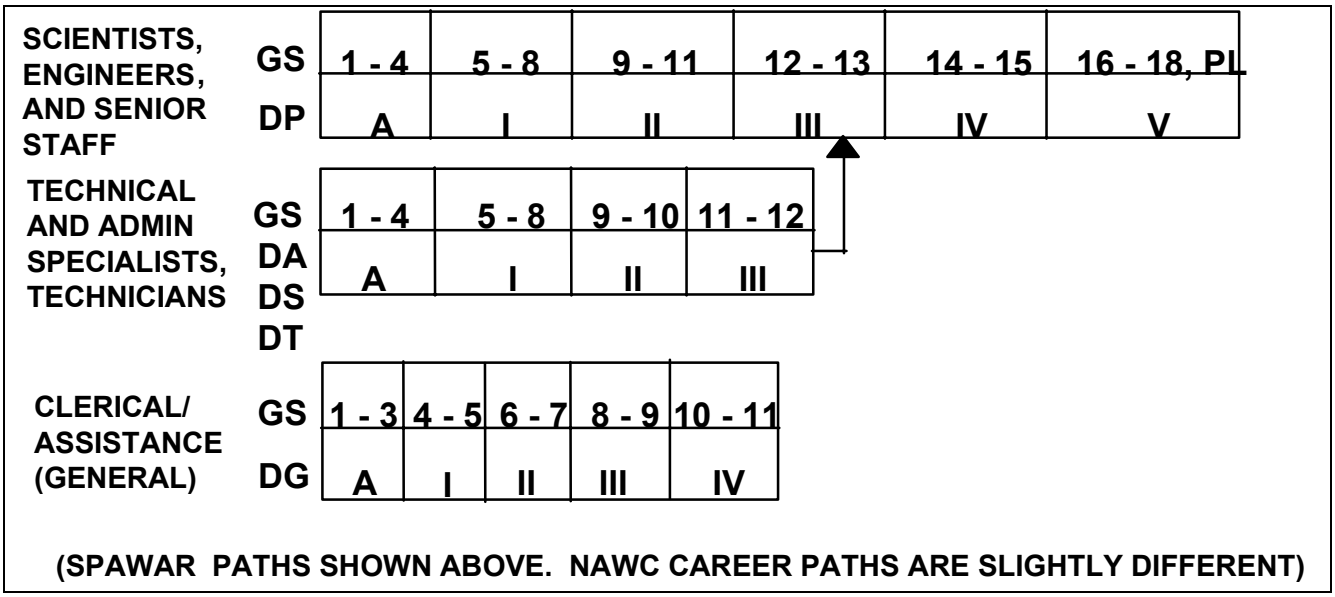
With the February 1984 passage of H.R. 4336, which extended this Project until 30 September 1990 and lifted the numerical limit for employee coverage, additional career paths could be added to the Project. The remaining non-covered clerical population at NWC was included in 1987. The Federal Register notice of December 10, 1987, which covered the NWC General Career path, included the authority for both Centers to give recruitment bonuses for especially difficult-to-fill positions. In October 1988, the Project was again extended to 30 September 1995.

On October 5, 1994, the National Defense Authorization Act for Fiscal Year 1995, Public Law 103-337, eliminated the termination date and provided that other Defense organizations could establish similar personnel systems.

BASIC FEATURES

In response to the management needs and styles of each Center, implementation of the Project varied somewhat between the two Centers. However, both Centers had a similar approach to pay, performance appraisal and position classification. Both Centers grouped 18 pay and classification grades (GS-1 through GS-18) into separate occupational career paths, with broad pay bands, or levels of difficulty. SPAWAR implementation follows.

CAREER PATHS AND PAY LEVELS AS RELATED TO CURRENT GS GRADE LEVELS



(SPAWAR PATHS SHOWN ABOVE. NAWC CAREER PATHS ARE SLIGHTLY DIFFERENT)

Each broad pay band encompasses at least two GS grades. Performance appraisal serves as the basis for determining incentive pay adjustments and bonuses. Each career path is a competitive area for reduction-in-force purposes, and retention is determined primarily on the basis of performance.

CLASSIFICATION SYSTEM

Each class of positions covered by the system (scientist and engineer, technician, technical specialist, administrative specialist and clerical/assistance) reflects career progression of those having similar qualification requirements and lines of work. Pay bands, or levels, in each career path reflect entry, trainee, journey and at DP IV and V, senior levels of work for that occupational group. Occupational series are retained in all career paths.

The classification system recognizes the rank-in-person concept, where an individual moving from one position to another in the same pay band retains his or her "rank" or pay. It also preserves the rank-in-position distinctions through classification in broad classification levels, or levels of difficulty

At SPAWAR, individual position descriptions are not used. A generic descriptor, called a Level/Specialty Designator, was written for each level in each career path. The L/SD describes in general terms what duties and responsibilities are assigned at that level. A separate descriptor covers supervisors and managers. The L/SD serves as classification standard and position description in one concise document. For technical positions, a specialty code is cited; this is a one-paragraph description of the product area or line of work. Functional codes, such as Research, Design, Management, etc., are used as they are in the GS system.

Although the GS occupational series are used, only the following titles exist at SPAWAR:

Engineer
Scientist
Technical Specialist
Administrative Specialist
Technician
Assistant
Manager
Supervisor

A first line supervisor at Level III is titled "Supervisor." A second line supervisor at Level III or IV is titled "Manager."

Higher-level line managers have classification authority, with advice from the Human Resources staff. To classify a position, the manager simply selects the appropriate L/SD, specialty code and functional code, completes the cover sheet and signs it.

PERFORMANCE LINKED PAY

Employees entered the project at their then-current salaries, plus a pro-rata increase for the time credited toward their next step increase. Each October, incentive pay increases and/or bonuses are paid, depending on the number of "incentive pay points" or "bonus points" awarded based on performance ratings. Annual salaries may be any whole dollar amount within the pay band. If an employee is at or near the top of the payband and is awarded continuing (salary increase) pay points, the salary is first increased, and any remaining is paid as a cash payment.

The incentive pay pool for salary increases was originally established as 2.3% of salaries in the pool, consisting of funds formerly used for quality salary increases, within-grade increases, sustained superior performance awards, and promotions from and to GS grades now within a single level or pay band.

The pay pools are now computed based on the population of the organization (department) as follows:

1. The point values for each pay band is computed as follows:

   a. For Levels A and I: $\frac{3.2\% \text{ of the midpoint salary}}{1.5}$

   b. For Level II: $\frac{2.8\% \text{ of the midpoint salary}}{1.5}$

   c. For Levels III, IV and V: $\frac{2.4\% \text{ of the midpoint salary}}{1.5}$

2. The dollar amounts allocated to departments and other equivalent organizations for the salary increase fund is the equivalent of 1.5 points for each employee in the organization on 30 June. The dollar amount allocated for bonuses is the sum of one percent of the midpoint salary of their career path and level for each employee in the organization on 30 June.

An additional 1% is available for the payment of cash bonuses. Bonuses are payable in lieu of or in combination with a salary increase.

Performance ratings are approved considering achievement of performance objectives and total job performance.

Incentive pay increase, bonus, and comparability increase are awarded based on the approved performance rating and consideration of the employee's current salary and organizational equity (i.e., achievements and salary of others and budgetary constraints)

PERFORMANCE RATINGS/PAYOUT

- •Continuing Pay Pool = approximately 2.3% of salaries on 30 June
- •Bonus Pool = 1% of midpoints on 30 June
- •Point values are pre-established (substantial point value = meaningful rewards)
- •Funds are allocated to organizations based on population

RATING	POINTS	
	SALARY INCREASE AND/OR BONUS	COMPARABILITY
OUTSTANDING	3 OR 4	FULL
SUPERIOR	2 OR 3	FULL
SUCCESSFUL*	0, 1, OR 2	FULL
MARGINAL	0	1/2 OR 0
UNACCEPTABLE**	0	0

* Midpoint principle applies. An employee who receives a "successful" rating and whose salary is at or above the midpoint of the bay band may receive zero or two continuing pay points, but may not receive one continuing pay point (a one-point salary increase).
** Reassignment, downgrade, or removal required.

Employees who exceed performance expectations receive incentive pay increases substantially exceeding government-wide comparability increases and step increases. Employees who fully meet performance expectations receive at least comparability, while those who do not fully meet performance expectations receive either one-half or none of the comparability increase.

Employees' salaries advance to the upper limit of a pay band only through performance, not time-in-level (time-in-grade). A cash payment corresponding to the payout shown above is given to those employees whose salaries are at the top of the level or a pay cap. If, on the other hand, an employee receives no or limited pay increases due to marginal performance, and the minimum salary of the current pay band exceeds the present salary, the employee "migrates downward" to the next lower level. This occurs without specific adverse or performance based action. In this manner, higher performing employees are rewarded more in consonance with their

contributions, adequate performers have their salaries held constant, and marginal performers in essence move backwards on the pay scale. Employees whose performance is unacceptable may be removed or changed to a lower level as a performance-based or adverse action, as in the GS system.

In order to provide managers an additional tool to recognize performance, cash bonuses are designed to reward those employees whose salaries are properly set but who have merited a financial reward.

As in the GS system, conduct problems continue to be addressed through the discipline process, not the performance/pay system.

REDUCTION IN FORCE

The Demonstration Project's major change in RIF procedures was the ranking of employees within each competitive level, based primarily on performance rating groupings and secondarily on the elements of tenure, veteran's preference, and length of service. The intent was to increase the probability of retaining the higher performing employees in their positions and displacing marginal performers. "Bumping" and "Retreating" are limited to the career path of origin. Thus, if engineering or scientific positions are abolished, clerical, technician, specialist and administrative personnel would not be displaced.

Retention standing within a competitive level is determined by performance rating groups. The outstanding, superior, and successful employees are placed at the top of the register in standard tenure, veteran's preference, and length of service order. Less than successful employees are placed at the bottom of the retention register, using the same standard order and are the first to be released from the competitive level. Individuals in higher retention groups always displace those in the lower groups.

Employees compete for retention within their current career path (career path in which their series originates). Career path is defined by and limited to lines of work: Scientist and Engineer (DP), Technician (DT), Technical Specialist (DS), Administrative Specialist (DA), or Assistant (DG).

PLANNING AND IMPLEMENTATION

The Demonstration Steering Group (DSG) originally consisted of the Deputy Technical Director, the Chief Staff Officer, and the Head of Central Staff. The Steering Group was the primary policy recommending body. It considered proposals and made recommendations on a continuing basis to the Center Commander and Technical Director.

Directors, now called Department Heads and Major Staff Office Heads comprised the Demonstration Advisory Group (DAG). Their designees served as chairpersons of working committees to develop local systems for classification, performance appraisal, and training. The committee chairpersons continue to function in that capacity as needed. They propose and evaluate changes recommended by employees or managers.

As each career path prepared for entry, employees from that path served on committees to assist in developing L/SDs, titling, etc. These groups serve on an ad hoc basis to resolve system problems that may arise.

The supervisory chain is the primary mechanism to effect changes to the system.

With the entrance of all of SPAWAR in 1995, the DSG has been reconfigured. It is now composed of the Business Managers from each Center, advised by the DCPP for SPAWAR. The Commander and Deputy Commander of SPAWAR are jointly responsible for the overall management and direction of the **Demonstration Project.**

EVALUATION

To assess project results and the feasibility of applications to other federal organizations, evaluation was conducted both internally at each Center and externally. The Graduate School of Public Administration, University of Southern California developed the original evaluation methodology. Coopers and Lybrand was awarded the first OPM evaluation contract and submitted their report in September 1982. The Office of Personnel Management subsequently assumed the role of external evaluator. The external evaluation effort monitors the implementation of the Project and assesses whether these changes in personnel management policies and procedures will result in improved Federal personnel management. To help isolate effects of the Project, changes at the two participating Centers are compared with data from two other Navy

RDT&E organizations, the Naval Surface Warfare Center and the Naval Air Warfare Center Aircraft Division.

Recruitment and retention success were evaluated, along with management issues of equity, motivation, satisfaction, mobility, line management flexibility/accountability, and changes in the number of adverse actions.

Attitude surveys were conducted by both the internal and external evaluators, plus management audits, studies, and other analyses. Records were analyzed to ensure that the Project had no negative impact on minorities or the handicapped. OPM's major objectives for measuring the success of the Project included recruitment success, increased high performer retention, improved personnel function performance, expanded performance-based pay systemization, managerial accountability and responsibility, and cost.

Many positive results have been identified in the evaluation process. A few are noted below:

RECRUITMENT

As was the case prior to implementation of the Project, SPAWAR continued to be able to hire sufficient high caliber scientists and engineers. The offer-to-acceptance ratio increased from 42% to 63%, and the average GPA continued to be slightly above 3.5 on a 4.0 scale. In February 1992 a total hiring freeze prevented any recruitment. College recruitment resumed in the fall of 1994. Start-up after that was slow, as relationships with academia had suffered and had to be reestablished. Since then, with the recent addition of recruitment bonuses and other incentives, recruitment has been effective but challenging due to labor market conditions.

Until the imposition of the freeze, NAWC WD had hired the number of entry level scientists and engineers needed each year since the project's inception in 1980. In addition, at NAWC WD the average GPA of the new hires increased from 2.7 to 3.4 and the ratio of hires to offers approximately doubled. Prior to the project, NWC was unable to recruit enough new scientists and engineers to meet the needs of the technical workforce.

RETENTION

Retention of superior performers, journey scientists and engineers, target groups at the demonstration labs, has been significantly higher than at comparable Navy (control) labs.

"Overall turnover at the demonstration labs has been consistently lower than at the control labs."[1]

PERFORMANCE-BASED COMPENSATION

"The perceived link between pay and performance, critical to the effective operation of a performance-based pay system, has been significantly strengthened at the two demonstration labs during the past seven years."[2]

"At the demonstration labs pay-performance correlations for scientists and engineers hired during the demonstration project are positive and increasing."[3]

OBJECTIVES-BASED PERFORMANCE APPRAISAL

"Perceived fairness of performance ratings has increased by about 20% since the implementation of an objectives-based appraisal system that serves as a basis for pay decisions. Perceived fairness of ratings also improved (by about 10%) at the control labs, where a system of job-related performance elements and standards was implemented as a result of the Civil Service Reform Act."[4]

CLASSIFICATION

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1 **"Turnover in the Navy Demonstration Laboratories 1980 - 1985," Management Report XI,: Evaluation of the Navy Personnel Management Demonstration Project, Miller, Demaris H., Personnel Systems and Oversight Group, Research and Demonstration Division, U. S. Office of Personnel Management, December 1988, Chap.3.**

2 **"Effects of Performance-Based Pay on Emplooyees in the Navy Demonstration Project: Analysis of Survey Responses 1979 to 1987," Schay, Brigitte W., Ph.D., Personnel Systems and Oversight Group, Research & Demonstration Division, December 1988.**

3 **"Salary Costs and the Capital Performance-Performance Based Pay Under the Navy Personnel Management Demonstration Project 1986 Update," Management Report X, Research and Demonstration Division, Personnel Systems and Oversight Group, Office of Personnel Management, December 1987.**

4 **Schay, Op. cit.**

• The job classification process was simplified and less time was spent on classification. Longitudinal survey data show that this did not cause any reductions in perceived accuracy and fairness.

• The simplified classification system has facilitated delegation of classification authority to supervisors whose satisfaction with the classification process has increased significantly.

• Demonstration project managers felt significantly less restricted by personnel rules and regulations than their counterparts under Title 5.

• Demonstration managers also viewed personnel offices as more helpful and supportive when the focus of personnel operations shifted from a process to a customer orientation.

• While internal equity is often cited as one of the positive features of the Federal classification system, Government-wide survey data indicate that only about one third of employees believe it exists.

EMPLOYEE OPINIONS ABOUT THE PROJECT

About 70% of the attitude survey respondents in 1987 said they were in favor of the demonstration project merit pay personnel system. Job and pay satisfaction has increased at demonstration labs but not at control labs.

SALARY COST

• After ten years, mean salaries at the Navy demonstration labs were 2.35 percent higher than at the control labs.

• Although the "buyout" of promotions and step increases incurred an immediate cost increase, mean salary growth after project implementation in 1980 has been the same at the Navy demonstration and control labs over the subsequent 10-year period.

• Organization-wide banding in the Navy demonstration has been cost-neutral for most of the non-professional career paths. After 10 years, mean salaries of demonstration professionals are 5.5 percent higher than at the control sites, and salaries of technicians are 1.9 percent higher. There were no significant changes in the other career paths.

• Under the Navy banding system, annual budget for salary increases are fixed and have averaged 2.4 percent per year, with an additional 1 percent maximum for cash bonuses.

• Separate cost analyses of new hires in the Navy demonstration show that although starting salaries are generally higher, pay progression under the banding system is slower during the first five years than under the GS system.

• Trading off higher starting salaries against slower, initial pay progression is an effective strategy that has resulted in improved recruitment and retention of quality employees. See also OPM Management Report XIV. [5]

CONVERSION COSTS

• The cost of "buy-outs" of partial step increases and career ladder promotions in the Navy demonstration was 2.5 percent of payroll. Employee pay satisfaction rose from 43 to 52 percent after broad-banding was implemented.

• The effect of the conversion cost diminished over time. During the first five years, the average annual cost increase due to banding was 3 percent, but in years 6 to 10 it decreased to 1.8 percent.[6]

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[5] **"Broad Banding in the Federal Government," Technical Report, Brigitte W. Schay, Ph.D., K. Craig Simons, Evelyn Guerra, Jacqueline Caldwell, Ph.D., Personnel Systems and Oversight Group, Office of Systems Innovation, U.S. Office of Personnel Management, December 1992.**

[6] **Schay, et. al. Op. cit.**

BENEFITS OF PROJECT

The Project demonstrates that a simplified, management-centered personnel administration process leads to more efficient and effective use of the resources of the participating laboratories. In addition, by providing a means of real-world testing for models of improved and simplified classification and performance evaluation system, the Project has had results that can be applied throughout the federal service. Such expansion of Demo concepts to other organizations would require Congressional legislation.

For more information on the features and implementation of the project, please contact:

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Rev 10/99